Lesedi Local Municipality
Annual Financial Statements
for the year ended 30 June 2011

Auditor-General
Issued 30 November 2011

# Lesedi Local Municipality

(Demarcation code: GT 423)
Annual Financial Statements for the year ended 30 June 2011

## General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality |
| **Nature of business and principal activities** | Local Municipality |
| **Mayoral committee** | |
| Executive Mayor | L F Maloka |
| Councillors | S T Makhubu |
| | M N R Nkosi |
| | S M Sibeko |
| | T B Tsoku |
| **Grading of local authority** | Category 4 Local Municipality |
| **Chief Finance Officer (CFO)** | V P Ndzinyana |
| **Registered office** | Civic Centre<br>C/o H F Verwoerd & Louw Streets<br>Heidelberg<br>1441 |
| **Postal address** | P O Box 201<br>Heidelberg<br>Gauteng<br>1441 |
| **Bankers** | ABSA Bank<br>Bruma Gauteng |
| **Auditors** | Auditor-General |

# Lesedi Local Municipality
(Demarcation code: GT 423)
Annual Financial Statements for the year ended 30 June 2011

## Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:


| Index | Page |
|---|---|
| Accounting Officer's Responsibilities and Approval | 4 |
| Report of the Auditor General | 5 |
| Statement of Financial Position | 6 |
| Statement of Financial Performance | 7 |
| Statement of Changes in Net Assets | 8 |
| Cash Flow Statement | 9 |
| Accounting Policies | 10 - 21 |
| Notes to the Annual Financial Statements | 22 - 54 |
| Appendixes: | |
| Appendix A: Schedule of External loans | 56 |
| Appendix B: Analysis of Property, Plant and Equipment | 57 |
| Appendix D: Segmental Statement of Financial Performance | 60 |
| Appendix E(1): Actual versus Budget (Revenue and Expenditure) | 61 |
| Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment) | 62 |
| Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act | 63 |

# Index

**Abbreviations**

| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

## Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the Council sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 6 to 54, which have been prepared on the going concern basis, were approved by the council on 31 August 2011 and were signed on its behalf by:

**Accounting Officer**
**Acting Municipal Manager**

**Heidelberg**

**31 August 2011**

# Report of the Auditor General

**TO THE PROVINCIAL LEGISLATURE OF LESEDI LOCAL MUNICIPALITY**

## Statement of Financial Position

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Inventories | 9 | 16,404,416 | 18,103,189 |
| Other receivables from exchange transactions | 10 | 11,929,994 | 5,544,760 |
| VAT receivable | 11 | 603,862 | 12,566,703 |
| Consumer debtors | 12 | 45,275,244 | 29,400,487 |
| Cash and cash equivalents | 13 | 3,890,784 | 26,958,088 |
| | | **78,104,300** | **92,573,227** |
| Non-Current Assets | | | |
| Investment property | 3 | 256,939,543 | 270,773,475 |
| Property, plant and equipment | 4 | 405,135,528 | 371,242,871 |
| Intangible assets | 5 | 1,628,029 | 2,464,450 |
| | | **663,703,100** | **644,480,796** |
| **Total Assets** | | **741,807,400** | **737,054,023** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Other financial liabilities | 14 | 5,171,280 | 4,792,706 |
| Trade and other payables from exchange transactions | 17 | 73,510,659 | 35,952,868 |
| Consumer deposits | 18 | 6,696,107 | 6,168,838 |
| Unspent conditional grants and receipts | 15 | 1,788,525 | 18,924,486 |
| Provisions | 16 | 5,359,087 | 4,711,747 |
| | | **92,525,658** | **70,550,645** |
| Non-Current Liabilities | | | |
| Other financial liabilities | 14 | 51,235,430 | 49,366,600 |
| Provisions | 16 | 1,197,830 | 1,261,982 |
| | | **52,433,260** | **50,628,582** |
| **Total Liabilities** | | **144,958,918** | **121,179,227** |
| **Net Assets** | | **596,848,482** | **615,874,796** |
| **Net Assets** | | | |
| Accumulated surplus | | 596,848,482 | 615,874,796 |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **Revenue** | | | |
| Property rates | 21 | 49,916,025 | 29,284,646 |
| Service charges | 22 | 213,337,850 | 189,222,775 |
| Rental of facilities and equipment | | 3,302,549 | 3,007,923 |
| Fines | | 2,404,477 | 2,455,529 |
| Government grants & subsidies | 23 | 95,115,678 | 71,267,957 |
| Recoveries - Insurance | | 287,661 | 720,898 |
| Interest received - investment | 30 | 2,027,101 | 2,422,326 |
| **Total Revenue** | | **366,391,341** | **298,382,054** |
| **Expenditure** | | | |
| Employee related costs | 26 | (82,942,223) | (73,633,240) |
| Remuneration of councillors | 27 | (5,789,321) | (5,490,897) |
| Administration | 28 | - | (5,500) |
| Depreciation and amortisation | 31 | (45,082,799) | (38,394,515) |
| Finance costs | 32 | (5,375,962) | (4,639,961) |
| Debt impairment | 29 | (26,696,721) | (34,731,732) |
| Collection costs | | (1,262,762) | (981,677) |
| Repairs and maintenance | | (18,295,497) | (14,958,256) |
| Bulk purchases | 36 | (150,958,641) | (103,912,273) |
| Contracted services | 35 | (2,445,315) | (2,131,325) |
| Loss on disposal of assets | | - | (14,379) |
| General Expenses | 24 | (47,505,271) | (44,761,633) |
| **Total Expenditure** | | **(386,354,512)** | **(323,655,388)** |
| Gain (loss) on disposal of assets and liabilities | | 628,374 | (14,379) |
| **Deficit for the year** | | **(19,334,797)** | **(25,287,713)** |

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| Opening balance as previously reported | 545,778,309 | 545,778,309 |
| Adjustments | | |
| Adjustments in terms of Directive 4 | 95,384,200 | 95,384,200 |
| **Balance at 01 July 2009 as restated** | **641,162,509** | **641,162,509** |
| Changes in net assets | | |
| Surplus for the year | (25,287,713) | (25,287,713) |
| Total changes | (25,287,713) | (25,287,713) |
| Opening balance as previously reported | 551,021,219 | 551,021,219 |
| Adjustments | | |
| Adjustments in terms of Directive 4 | 65,162,060 | 65,162,060 |
| **Balance at 01 July 2010 as restated** | **616,183,279** | **616,183,279** |
| Changes in net assets | | |
| Surplus for the year | (19,334,797) | (19,334,797) |
| Total changes | (19,334,797) | (19,334,797) |
| **Balance at 30 June 2011** | **596,848,482** | **596,848,482** |

## Cash Flow Statement

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 244,161,311 | 206,777,783 |
| Grants | | 77,246,929 | 75,346,358 |
| Interest income | | 2,027,101 | 2,422,326 |
| | | 323,435,341 | 284,546,467 |
| **Payments** | | | |
| Employee costs | | (86,599,619) | (79,124,137) |
| Suppliers | | (193,214,964) | (176,801,340) |
| Finance costs | | (5,375,962) | (4,639,961) |
| | | (285,190,545) | (260,565,438) |
| **Net cash flows from operating activities** | 37 | **38,244,796** | **23,981,029** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 4 | (64,285,572) | (40,304,237) |
| Proceeds from sale of property, plant and equipment | 4 | 811,156 | 1 |
| Purchase of other intangible assets | 5 | (85,088) | (719,881) |
| **Net cash flows from investing activities** | | **(63,559,504)** | **(41,024,117)** |
| **Cash flows from financing activities** | | | |
| Proceeds from other financial liabilities | | 7,191,863 | 8,724,278 |
| Repayment of other financial liabilities | | (4,944,459) | (3,905,038) |
| **Net cash flows from financing activities** | | **2,247,404** | **4,819,240** |
| **Net decrease in cash and cash equivalents** | | **(23,067,304)** | **(12,223,848)** |
| Cash and cash equivalents at the beginning of the year | | 26,958,088 | 39,181,936 |
| **Cash and cash equivalents at the end of the year** | 13 | **3,890,784** | **26,958,088** |

# Accounting Policies

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They have been prepared on the assumption that the Municipality will continue to operate as a going concern for at least the next twelve months and are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period unless explicitly stated otherwise.

### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. These judgements and sources of estimation uncertainty have been covered in the relevant notes.

### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property.

**Cost model**

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

| Item | Useful life |
|---|---|
| Property - land | indefinite |
| Property - buildings | 30 years |
| Lifts | 30 years |
| Air-conditioners | 5 years |

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

# Accounting Policies

### 1.2 Investment property (continued)

**Transitional provision**

The municipality changed its accounting policy for investment property in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in note 3. The transitional provision expires on 01 July 2011.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# Accounting Policies

**1.3 Property, plant and equipment (continued)**

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Average useful life |
|---|---|
| Infrastructure | |
| • Roads and paving | 10 - 30 years |
| • Electricity | 20 - 30 years |
| • Water | 15 - 20 years |
| • Sewerage | 15 - 20 years |
| • Landfill site | 4 years |
| Community | |
| • Buildings | 30 years |
| • Recreational Facilities | 20 - 30 years |
| • Security | 5 years |
| Other property, plant and equipment | |
| • Specialist vehicles | 20 years |
| • Other Vehicles | 5 years |
| • Furniture and fittings | 7 years |
| • Bins and containers | 5 years |
| • Office equipment | 3 - 7 years |
| Heritage | |
| • Museums & other collectables | indefinite |
| • Library book collections | indefinite |

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

# Accounting Policies

### 1.3 Property, plant and equipment (continued)

**Transitional provision**

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 4. The transitional provision expires on 01 July 2011.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2003 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 4.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

### 1.4 Intangible assets

Intangible assets are initially recognised at cost.

Computer software is capitalised to computer equipment where it forms an integral part of computer equipment.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Useful life |
|---|---|
| Computer software, other | 3 years |

### 1.5 Heritage assets

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

# Accounting Policies

### 1.5 Heritage assets (continued)

**Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

**Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

**Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

### 1.6 Financial instruments

**Classification**

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

**Initial recognition and measurement**

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

**Subsequent measurement**

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

# Accounting Policies

### 1.6 Financial instruments (continued)

**Trade and other receivables**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

**Trade and other payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

**Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

**Held to maturity**

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

# Accounting Policies

### 1.7 Leases (continued)

**Finance leases - lessor**

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in the statement of financial performance.

### 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

### 1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

**Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

# Accounting Policies

### 1.9 Impairment of cash-generating assets (continued)

**Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

**Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

### 1.10 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

**Identification**

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

**Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.11 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of a municipality after deducting all of its liabilities.

### 1.12 Employee benefits

**Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

# Accounting Policies

**1.12 Employee benefits (continued)**

**Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

**1.13 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

**1.14 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

# Accounting Policies

**1.14 Revenue from exchange transactions (continued)**

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

# Accounting Policies

**1.14 Revenue from exchange transactions (continued)**

**Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

**1.15 Revenue from non-exchange transactions**

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

**Rates, including collection charges and penalties interest**

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

**Fines**

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

**1.16 Borrowing costs**

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

**1.17 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

**1.18 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Where unauthorised expenditure is not approved, it is recovered from the responsible person and the amount received is accounted for as revenue in the Statement of Financial Performance.

**1.19 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

# Accounting Policies

**1.19 Fruitless and wasteful expenditure (continued)**

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Where fruitless and wasteful expenditure is not approved, it is recovered from the responsible person and the amount received is accounted for as revenue in the Statement of Financial Performance.

**1.20 Irregular expenditure**

If irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.21 Presentation of currency**

These annual financial statements are presented in South African Rand.

**1.22 Offsetting**

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

**1.23 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

**1.24 Budget information**

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

| Figures in Rand | 2011 | 2010 |
|---|---|---|

**2. New standards and interpretations**

**2.1 Standards and interpretations issued, but not yet effective**

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

**GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions in the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 July 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 23: Revenue from Non-exchange Transactions**

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised by an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 July 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

**GRAP 24: Presentation of Budget Information in the Financial Statements**

Subject to the requirements of paragraph 19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 July 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 103: Heritage Assets**

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 July 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 21: Impairment of non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

A municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

A municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 July 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 26: Impairment of cash-generating assets**

Cash-generating assets are those assets held by a municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

A municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, a municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, a municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, a municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 July 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 25: Employee benefits**

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires a municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when a municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by a municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity’s decision to terminate an employee’s employment before the normal retirement date; or
  - an employee’s decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

The standard states the recognition, measurement and disclosure requirements of:
- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:
- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:
- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:
- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 July 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 104: Financial Instruments**

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle a municipality to a portion of another municipality's net assets in the event of liquidation, and to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where a municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. A municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. A municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, a municipality can however designate such an instrument to be measured at fair value.

A municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once a municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

## Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, a municipality has transferred control of the asset to another municipality.

A municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where a municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

A municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for a municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that a municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. A municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 July 2011.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

**3. Investment property**

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 292,771,293 | (35,831,750) | 256,939,543 | 292,654,068 | (21,880,593) | 270,773,475 |

**Reconciliation of investment property - 2011**

| | Opening balance | Transfers | Depreciation | Total |
|---|---|---|---|---|
| Investment property | 270,773,475 | 117,225 | (13,951,157) | 256,939,543 |

**Reconciliation of investment property - 2010**

| | Opening balance | Transfers | Depreciation | Total |
|---|---|---|---|---|
| Investment property | 293,038,911 | (14,336,000) | (7,929,436) | 270,773,475 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 3. Investment property (continued)

**Transitional provisions**

**Investment property recognised at provisional amounts**

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 1.2, revisions were made to the opening carrying value of certain investment property amounting to R 6 745 090 which was previously recognised at provisional amounts.

### 4. Property, plant and equipment

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 57,034,399 | - | 57,034,399 | 57,034,399 | - | 57,034,399 |
| Infrastructure | 429,664,337 | (222,762,394) | 206,901,943 | 383,642,399 | (203,491,549) | 180,150,850 |
| Community | 48,494,848 | (11,439,157) | 37,055,691 | 48,287,893 | (9,773,616) | 38,514,277 |
| Other property, plant and equipment | 100,538,948 | (55,855,700) | 44,683,248 | 98,466,219 | (48,977,099) | 49,489,120 |
| Capital work in progress | 24,769,141 | - | 24,769,141 | 12,664,631 | - | 12,664,631 |
| Heritage | 34,691,106 | - | 34,691,106 | 33,389,594 | - | 33,389,594 |
| **Total** | **695,192,779** | **(290,057,251)** | **405,135,528** | **633,485,135** | **(262,242,264)** | **371,242,871** |

**Reconciliation of property, plant and equipment - 2011**

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 57,034,399 | - | - | - | - | 57,034,399 |
| Infrastructure | 180,150,850 | 33,357,307 | - | 12,664,630 | (19,270,844) | 206,901,943 |
| Community | 38,514,277 | 206,955 | - | - | (1,665,541) | 37,055,691 |
| Other property, plant and equipment | 49,489,120 | 4,650,658 | (182,782) | - | (9,273,748) | 44,683,248 |
| Capital work in progress | 12,664,631 | 24,769,140 | - | (12,664,630) | - | 24,769,141 |
| Heritage | 33,389,594 | 1,301,512 | - | - | - | 34,691,106 |
| | **371,242,871** | **64,285,572** | **(182,782)** | **-** | **(30,210,133)** | **405,135,528** |

**Reconciliation of property, plant and equipment - 2010**

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 57,034,399 | - | - | - | - | 57,034,399 |
| Infrastructure | 183,682,910 | 18,107,610 | - | 1,177,758 | (22,817,428) | 180,150,850 |
| Community | 33,834,187 | 4,977,718 | - | 1,413,424 | (1,711,052) | 38,514,277 |
| Other property, plant and equipment | 54,248,499 | 4,554,108 | 24,255 | 158,559 | (9,496,301) | 49,489,120 |
| Capital work in progress | - | 12,664,631 | - | - | - | 12,664,631 |
| Heritage | 33,389,424 | 170 | - | - | - | 33,389,594 |
| | **362,189,419** | **40,304,237** | **24,255** | **2,749,741** | **(34,024,781)** | **371,242,871** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

**4. Property, plant and equipment (continued)**

**Transitional provisions**

**Property, plant and equipment recognised at provisional amounts**

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 1.3, revisions were made to the opening carrying value of certain property, plant and equipment to R 82,324,949 which was previously recognised at provisional amounts.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The gross carrying amount of property, plant and equipment fully depreciated and still in use at year-end is R7,877,840.71 but has been set aside for disposal in the 2012 financial year.

One hundred and seventy library books have a value of R1 or nil value as they need verification of their categorization so that the appropriate standard values can be applied.

**5. Intangible assets**

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 4,325,825 | (2,697,796) | 1,628,029 | 4,240,738 | (1,776,288) | 2,464,450 |

**Reconciliation of intangible assets - 2011**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | 2,464,450 | 85,088 | (921,509) | 1,628,029 |

**Reconciliation of intangible assets - 2010**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | 3,157,845 | 719,881 | (1,413,276) | 2,464,450 |

**Transitional provisions**

**Intangible assets recognised at provisional amounts**

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 1.4, revisions were made to the opening value of certain intangible assets amounting to R (2,458,509) (2010: R 771,232) which was previously recognised at provisional amounts.

**6. Other financial assets**

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2011 and 2010, as all the financial assets were disposed of at their redemption date.

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 6. Other financial assets (continued)

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

### 7. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

**2011**

| | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|
| Trade and other receivables | 45,275,244 | - | 45,275,244 |
| Other receivables from non-exchange transactions | 11,929,994 | - | 11,929,994 |
| Cash and cash equivalents | - | 3,890,784 | 3,890,784 |
| VAT receivable | 603,862 | - | 603,862 |
| | **57,809,100** | **3,890,784** | **61,699,884** |

**2010**

| | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|
| Trade and other receivables | 29,400,487 | - | 29,400,487 |
| Other receivables from exchange transactions | 5,544,760 | - | 5,544,760 |
| Cash and cash equivalents | - | 26,958,088 | 26,958,088 |
| VAT receivables | 12,566,703 | - | 12,566,703 |
| | **47,511,950** | **26,958,088** | **74,470,038** |

### 8. Employee benefit obligations

**Defined benefit plan**

**Post retirement medical aid plan**

Lesedi operates on 4 accredited medical aid schemes, namely Hosmed, Key Health, Bonitas and LA Health. Pensioners continue on the option they belong to on the day of their retirement.

### 9. Inventories

| | | |
|---|---|---|
| Consumable stores | 3,892,022 | 3,658,697 |
| Water | 115,619 | 108,492 |
| Unsold Properties Held for Resale | 12,396,775 | 14,336,000 |
| | **16,404,416** | **18,103,189** |

**Adjustments**

**Inventories not previously recognised**

Vacant land with a value of R 250 000 was identified for sale during 2010 and sold in the current financial year. The land was not previously accounted for as part of inventory.

| Figures in Rand | 2011 | 2010 |
|---|---|---|
| **10. Other receivables from exchange transactions** | | |
| Deposits | 108,889 | 108,889 |
| Sundry debtors | 6,242,753 | 2,032,966 |
| Housing debtors | 3,402,905 | 3,402,905 |
| District and court receivables | 2,175,447 | - |
| | **11,929,994** | **5,544,760** |
| **11. VAT receivable** | | |
| VAT | 603,862 | 12,566,703 |
| **12. Consumer debtors** | | |
| **Gross balances** | | |
| Rates | 24,941,892 | 24,024,856 |
| Electricity | 38,832,570 | 34,307,576 |
| Water | 41,422,589 | 31,725,278 |
| Sewerage | 15,499,479 | 14,678,378 |
| Refuse | 27,637,230 | 23,962,527 |
| VAT | 14,922,013 | 12,029,519 |
| Other | 24,856,514 | 15,793,910 |
| | **188,112,287** | **156,522,044** |
| **Less: Provision for debt impairment** | | |
| Rates | (21,411,977) | (21,182,944) |
| Electricity | (30,880,476) | (30,249,307) |
| Water | (36,035,484) | (27,972,479) |
| Sewerage | (14,010,946) | (12,942,065) |
| Refuse | (25,075,458) | (21,127,988) |
| Other | (15,422,702) | (13,646,774) |
| | **(142,837,043)** | **(127,121,557)** |
| **Net balance** | | |
| Rates | 3,529,915 | 2,841,912 |
| Electricity | 7,952,094 | 4,058,269 |
| Water | 5,387,105 | 3,752,799 |
| Sewerage | 1,488,533 | 1,736,313 |
| Refuse | 2,561,772 | 2,834,539 |
| VAT | 14,922,013 | 12,029,519 |
| Other | 9,433,812 | 2,147,136 |
| | **45,275,244** | **29,400,487** |
| **Rates** | | |
| Current (0 -30 days) | 1,409,200 | 2,841,912 |
| 31 - 60 days | 1,184,957 | - |
| 61 - 90 days | 935,758 | - |
| | **3,529,915** | **2,841,912** |
| **Electricity** | | |
| Current (0 -30 days) | 4,605,377 | 4,058,269 |
| 31 - 60 days | 2,062,423 | - |
| 61 - 90 days | 1,284,294 | - |
| | **7,952,094** | **4,058,269** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 12. Consumer debtors (continued)

| | | |
|---|---|---|
| **Water** | | |
| Current (0 -30 days) | 1,904,596 | 3,122,404 |
| 31 - 60 days | 1,867,604 | 630,395 |
| 61 - 90 days | 1,614,905 | - |
| | **5,387,105** | **3,752,799** |
| **Sewerage** | | |
| Current (0 -30 days) | 451,738 | 1,553,668 |
| 31 - 60 days | 556,349 | 182,645 |
| 61 - 90 days | 480,446 | - |
| | **1,488,533** | **1,736,313** |
| **Refuse** | | |
| Current (0 -30 days) | 653,173 | 1,602,165 |
| 31 - 60 day | 1,028,696 | 1,232,374 |
| 61 - 90 days | 879,903 | - |
| | **2,561,772** | **2,834,539** |
| **VAT** | | |
| Current (0 -30 days) | 14,922,013 | 12,029,519 |
| **Other (specify)** | | |
| Current (0 -30 days) | 3,195,073 | 1,227,726 |
| 31 - 60 days | 2,620,642 | 919,410 |
| 61 - 90 days | 3,618,097 | - |
| | **9,433,812** | **2,147,136** |
| **Reconciliation of debt impairment provision** | | |
| Balance at beginning of the year | (127,121,557) | (92,389,825) |
| Contributions to provision | (26,696,721) | (40,086,922) |
| Debt impairment written off against provision | 10,981,235 | 5,355,190 |
| | **(142,837,043)** | **(127,121,557)** |

### 13. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 2,335 | 2,335 |
| Bank balances | 3,888,449 | 11,955,753 |
| Short-term deposits | - | 15,000,000 |
| | **3,890,784** | **26,958,088** |

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2011 | 30 June 2010 | 30 June 2009 | 30 June 2011 | 30 June 2010 | 30 June 2009 |
| ABSA BANK - Main Cheque Account | 3,888,449 | 11,955,753 | 11,957,021 | (15,509,899) | 5,332,282 | (3,707,044) |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 14. Other financial liabilities

| | | |
|---|---|---|
| **At fair value through surplus or deficit** | | |
| Development Bank of Southern Africa<br>The loan interest rates vary between 5.00% and 14.24%, and the half-yearly fixed instalment repayments vary between R5,491 and R1,377,105. The terms of the loans range between 10 and 20 years. | 56,406,710 | 54,159,306 |
| **Non-current liabilities** | | |
| Fair value through surplus or deficit | 51,235,430 | 49,366,600 |
| **Current liabilities** | | |
| Fair value through surplus or deficit | 5,171,280 | 4,792,706 |
| | **56,406,710** | **54,159,306** |

### 15. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| **Unspent conditional grants and receipts - Restated** | | |
| Finance management grant | - | 505,720 |
| District health | (420,731) | (246,035) |
| Provincial clinics | (1,346,673) | (959,085) |
| Water grants | 839,625 | 511,768 |
| Provincial library and other | 241,686 | 568,362 |
| Agricultural grant | - | 325,073 |
| District other | (170,503) | 177 |
| District Madiba road - capital | 33,396 | 29,607 |
| Municipal infrastructure grant - capital | 434,030 | 16,616,138 |
| Provincial clinics - capital | - | 79,894 |
| Provincial other - capital | 85,103 | 85,103 |
| Provincial library - capital | 154,684 | 202,644 |
| Unspent grant 36 | 1,937,908 | 1,205,120 |
| | **1,788,525** | **18,924,486** |

**Movement during the year**

| | | |
|---|---|---|
| Net unspent conditional grants balance at the beginning of the year | 17,719,366 | 16,210,238 |
| Additions during the year | 77,246,929 | 72,777,082 |
| Reversal of debtor for reconciliation | 1,937,908 | 1,205,120 |
| Income recognition during the year | (95,115,678) | (71,267,954) |
| | **1,788,525** | **18,924,486** |

**Net grants for movement reconciliation (Note 10,15 & 23)**

| | | |
|---|---|---|
| Other receivables (Sundry debtors) | (1,937,908) | (1,205,120) |
| Unspent conditional grant rollovers | 1,788,525 | 18,924,486 |
| **Net unspent conditional grants balance at the end of the year** | **(149,383)** | **17,719,366** |

The nature and extent of government grants recognised in the annual financial statements, and an indication of other forms of government assistance, from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has not been recognised.

See note 23 for reconciliation of grants from National/Provincial Government.

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 16. Provisions

**Reconciliation of provisions - 2011**

| | Opening Balance | Additions | Utilised during the year | Reversed during the year | Total |
|---|---|---|---|---|---|
| Environmental rehabilitation: Open landfill sites | 1,261,982 | - | - | (64,152) | 1,197,830 |
| Leave Pay | 4,711,747 | 1,364,166 | (716,826) | - | 5,359,087 |
| | **5,973,729** | **1,364,166** | **(716,826)** | **(64,152)** | **6,556,917** |

**Reconciliation of provisions - 2010**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Environmental rehabilitation: Open landfill sites | 802,760 | 459,222 | - | 1,261,982 |
| Leave pay | 3,991,077 | 1,446,256 | (725,586) | 4,711,747 |
| | **4,793,837** | **1,905,478** | **(725,586)** | **5,973,729** |

| | | |
|---|---|---|
| Non-current liabilities | 1,197,830 | 1,261,982 |
| Current liabilities | 5,359,087 | 4,711,747 |
| | **6,556,917** | **5,973,729** |

### 17. Trade and other payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 51,105,415 | 21,637,069 |
| Payments received in advanced - contract in process | 15,060,531 | 7,694,117 |
| Retentions | 5,745,541 | 4,916,063 |
| Sundry payables | 1,098,506 | 1,098,506 |
| Other payables | 149,069 | 146,795 |
| Audit fees | 85,392 | 85,392 |
| Interest on DBSA loan | 266,205 | 374,926 |
| | **73,510,659** | **35,952,868** |

### 18. Consumer deposits

| | | |
|---|---|---|
| Consumer deposits - All services | 6,696,107 | 6,168,838 |

Guarantees held in lieu of service deposits R571,756 (2010: R517,756).

### 19. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

**2011**

| | Financial liabilities at amortised cost | Total |
|---|---|---|
| Other financial liabilities | 56,406,710 | 56,406,710 |
| Trade and other payables | 73,510,659 | 73,510,659 |
| Unspent conditional grants and receipts | 1,788,525 | 1,788,525 |
| Consumer deposits | 6,696,107 | 6,696,107 |
| | **138,402,001** | **138,402,001** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

**19. Financial liabilities by category (continued)**

**2010**

| | Financial liabilities at amortised cost | Total |
|---|---|---|
| Other financial liabilities | 54,159,306 | 54,159,306 |
| Trade and other payables | 35,952,868 | 35,952,868 |
| Unspent conditional grants and receipts | 18,924,486 | 18,924,486 |
| Consumer deposits | 6,168,838 | 6,168,838 |
| | **115,205,498** | **115,205,498** |

**20. Revenue**

| | | |
|---|---|---|
| Property rates | 49,916,025 | 29,284,646 |
| Service charges | 213,337,850 | 189,222,775 |
| Rental of facilities & equipment | 3,302,549 | 3,007,923 |
| Fines | 2,404,477 | 2,455,529 |
| Government grants & subsidies | 95,115,678 | 71,267,957 |
| | **364,076,579** | **295,238,830** |
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Service charges | 213,337,850 | 189,222,775 |
| Rental of facilities & equipment | 3,302,549 | 3,007,923 |
| | **216,640,399** | **192,230,698** |
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| **Taxation revenue** | | |
| Property rates | 49,916,025 | 29,284,646 |
| Fines | 2,404,477 | 2,455,529 |
| **Transfer revenue** | | |
| Levies | 95,115,678 | 71,267,957 |
| | **147,436,180** | **103,008,132** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 21. Property rates

**Rates received**

| | | |
|---|---|---|
| Municipal rates levied | 49,916,025 | 29,284,646 |

**Valuations**

| | | |
|---|---|---|
| Residential | 4,754,167,000 | 3,055,022,361 |
| Commercial | 1,093,763,000 | 428,404,901 |
| State | 627,406,000 | 227,859,101 |
| Municipal | 684,148,000 | 49,259,250 |
| Small holdings and farms | 1,460,884,000 | 654,892,573 |
| | **8,620,368,000** | **4,415,438,186** |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2010. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0.00745 (2010: R 0.013) is applied to property valuations to determine assessment rates. Rebates of 20% (2010: 20%) are granted to residential and state property owners.

Rates are levied on a monthly basis. Interest at 10% per annum (2010: 10%) and a collection fee of -% (2010: -%), is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2014.

### 22. Service charges

| | | |
|---|---|---|
| Sale of electricity | 129,264,378 | 123,901,933 |
| Sale of water | 44,464,650 | 32,819,374 |
| Sewerage and sanitation charges | 13,663,533 | 12,610,936 |
| Refuse removal | 18,533,016 | 16,911,971 |
| Other service charges | 7,412,273 | 2,978,561 |
| | **213,337,850** | **189,222,775** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 23. Government grants and subsidies - Restated

| | | |
|---|---|---|
| Equitable share | 48,093,000 | 38,295,501 |
| Government grant (operating) 1 - Finance management grant | 3,469,057 | 2,244,280 |
| Government grant (operating) 3 - NER/DME | - | 108,555 |
| Government grant (operating) 4 - Municipal system improvement grant | 750,000 | 902,938 |
| Government grant (operating) 5 - District health | 2,269,382 | 2,291,994 |
| Government grant (operating) 6 - Vuna & others | - | 18,548 |
| Government grant (operating) 7 - Provincial clinics | 2,452,082 | 3,290,085 |
| Government grant (operating) 8 - Water grants | 1,042,045 | 690,628 |
| Government grant (operating) 9 - Province library & other | 3,008,420 | 2,058,531 |
| Government grant (operating) 12 - Agriculture grant | 325,073 | - |
| Government grant (operating) 13 - District other | 686,527 | 277,222 |
| Government grant (capital) 16 - District Madiba road - capital | 1,796,211 | 563,296 |
| Government grant (capital) 18 - Municipal infrastructure grant - capital | 29,421,108 | 13,001,571 |
| Government grant (capital) 20 - Provincial clinics - capital | 79,894 | 3,227,547 |
| Government grant (capital) 21 - Vuna & others- capital | - | 719,881 |
| Government grant (capital) 22 - Provincial other - capital | - | 1,756,624 |
| Government grant (capital) 24 - Finance management grant - capital | 36,663 | - |
| Government grant (capital) 25 - Provincial library - capital | 1,686,216 | 1,820,756 |
| | **95,115,678** | **71,267,957** |

**Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 150 (2010: R 150), which is funded from the grant.

**Finance management grant - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 505,720 | 1,762,096 |
| Current-year receipts | 2,963,337 | 987,904 |
| Conditions met - transferred to revenue | (3,469,057) | (2,244,280) |
| | **-** | **505,720** |

Conditions still to be met - remain liabilities (see note 15).

**NER/DME - Restated**

| | | |
|---|---|---|
| Current-year receipts | - | 108,555 |
| Conditions met - transferred to revenue | - | (108,555) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 15).

**Municipal system improvement grant - Restated**

| | | |
|---|---|---|
| Current-year receipts | 750,000 | 902,938 |
| Conditions met - transferred to revenue | (750,000) | (902,938) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 15).

**District health - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | (246,035) | - |

| Figures in Rand | 2011 | 2010 |
|---|---|---|
| **23. Government grants and subsidies - Restated (continued)** | | |
| Current-year receipts | 2,094,686 | 2,045,959 |
| Conditions met - transferred to revenue | (2,269,382) | (2,291,994) |
| | **(420,731)** | **(246,035)** |

Conditions still to be met - remain liabilities (see note 15).

**Vuna & Other - Restated**

| | | |
|---|---|---|
| Current-year receipts | - | 18,548 |
| Conditions met - transferred to revenue | - | (18,548) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 15).

**Provincial clinics - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | (959,085) | 6,024,351 |
| Current-year receipts | 2,064,494 | (3,693,351) |
| Conditions met - transferred to revenue | (2,452,082) | (3,290,085) |
| | **(1,346,673)** | **(959,085)** |

Conditions still to be met - remain liabilities (see note 15).

**Water grants - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 511,768 | - |
| Current-year receipts | 1,369,902 | 1,202,396 |
| Conditions met - transferred to revenue | (1,042,045) | (690,628) |
| | **839,625** | **511,768** |

Conditions still to be met - remain liabilities (see note 15).

**Provincial library & other - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 568,362 | - |
| Current-year receipts | 2,681,744 | 2,626,893 |
| Conditions met - transferred to revenue | (3,008,420) | (2,058,531) |
| | **241,686** | **568,362** |

Conditions still to be met - remain liabilities (see note 15).

**Agriculture grant - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 325,073 | - |
| Current-year receipts | - | 325,073 |
| Conditions met - transferred to revenue | (325,073) | - |
| | **-** | **325,073** |

Conditions still to be met - remain liabilities (see note 15).

**District other - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 177 | - |
| Current-year receipts | 515,847 | 277,399 |

| Figures in Rand | 2011 | 2010 |
|---|---|---|
| **23. Government grants and subsidies - Restated (continued)** | | |
| Conditions met - transferred to revenue | (686,527) | (277,222) |
| | **(170,503)** | **177** |

Conditions still to be met - remain liabilities (see note 15).

**District Madiba road - capital - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 29,607 | - |
| Current-year receipts | 1,800,000 | 592,903 |
| Conditions met - transferred to revenue | (1,796,211) | (563,296) |
| | **33,396** | **29,607** |

Conditions still to be met - remain liabilities (see note 15).

**Municipal infrastructure grant - capital - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 16,616,138 | 6,845,400 |
| Current-year receipts | 13,239,000 | 22,772,309 |
| Conditions met - transferred to revenue | (29,421,108) | (13,001,571) |
| | **434,030** | **16,616,138** |

Conditions still to be met - remain liabilities (see note 15).

**Provincial clinics - capital - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 79,894 | - |
| Current-year receipts | - | 3,307,441 |
| Conditions met - transferred to revenue | (79,894) | (3,227,547) |
| | **-** | **79,894** |

Conditions still to be met - remain liabilities (see note 15).

**Vuna & Other capital - Restated**

| | | |
|---|---|---|
| Current-year receipts | - | 719,881 |
| Conditions met - transferred to revenue | - | (719,881) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 15).

**Provincial other - capital - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 85,103 | - |
| Current-year receipts | - | 1,841,727 |
| Conditions met - transferred to revenue | - | (1,756,624) |
| | **85,103** | **85,103** |

Conditions still to be met - remain liabilities (see note 15).

**Finance management grant - capital - Restated**

| | | |
|---|---|---|
| Current-year receipts | 36,663 | - |
| Conditions met - transferred to revenue | (36,663) | - |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 23. Government grants and subsidies - Restated (continued)

| | | |
|---|---|---|
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 15).

**Provincial library - capital - Restated**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 202,644 | - |
| Current-year receipts | 1,638,256 | 2,023,400 |
| Conditions met - transferred to revenue | (1,686,216) | (1,820,756) |
| | **154,684** | **202,644** |

Conditions still to be met - remain liabilities (see note 15).

**Changes in level of government grants**

Based on the allocations set out in the Division of Revenue Act, (Act 6 of 2011), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 24. General expenses

| | | |
|---|---|---|
| Advertising | 484,778 | 316,935 |
| Assessment rates & municipal charges | - | 4,527 |
| Assets expensed | 53,197 | 55,263 |
| Auditors remuneration | 2,612,508 | 1,417,847 |
| Bank charges | 343,254 | 301,551 |
| Billing and meter reading charges | 1,047,943 | 923,459 |
| Cleaning | - | 35,218 |
| Community development and training | 1,468,815 | 1,128,257 |
| Consulting and professional fees | 5,264,649 | 8,262,729 |
| Consumables | 501,116 | 479,938 |
| Delivery expenses | 1,955,140 | 2,981,265 |
| Donations | 10,000 | 27,432 |
| Entertainment | 331,672 | 145,192 |
| Fines and penalties | 12,750 | 4,650 |
| Fleet | 8,621,155 | 6,905,248 |
| Grant related expenses | 4,326,583 | 3,290,358 |
| Hire | 240,900 | 264,795 |
| IT expenses | 2,187,658 | 2,590,142 |
| Insurance | 1,161,426 | 1,155,532 |
| Laboratory charges | 33,937 | 14,183 |
| Magazines, books and periodicals | 231,109 | 33,759 |
| Marketing | - | 319 |
| Medical expenses | 16,400 | 748 |
| Motor vehicle expenses | 21,700 | - |
| Pensioners:Medical aid costs | 1,024,865 | 603,006 |
| Pest control | 83,185 | 93,097 |
| Postage and courier | 369,150 | 356,357 |
| Printing and stationery | 937,777 | 993,929 |
| Promotions and sponsorships | 92,395 | 43,310 |
| Property - repairs: furniture & equipment | 22,117 | 9,934 |
| Protective clothing | 613,769 | 636,467 |
| Refuse | 3,984,784 | 3,651,120 |
| Security (Guarding of municipal property) | 4,942,239 | 4,590,789 |
| Software expenses | 1,537,675 | 1,247,931 |
| Subscriptions and membership fees | 419,394 | 425,671 |
| Telephone and fax | 1,294,346 | 975,193 |
| Training | 947,581 | 572,764 |
| Travel - local | 309,304 | 237,097 |
| | **47,505,271** | **44,776,012** |

### 25. Operating deficit

Operating deficit for the year is stated after accounting for the following:

| | | |
|---|---|---|
| Gain (loss) on sale of property, plant and equipment | 628,374 | (14,379) |
| Depreciation on property, plant and equipment | 31,131,642 | 30,465,079 |
| Depreciation on investment property | 13,951,157 | 7,929,436 |
| Employee costs | 88,731,544 | 79,124,137 |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 26. Employee related costs

| | | |
|---|---|---|
| Basic | 49,274,863 | 44,748,196 |
| Medical aid - company contributions | 3,918,246 | 3,156,957 |
| UIF | 501,135 | 451,992 |
| WCA | 534,361 | 466,521 |
| SDL | 580,176 | 505,492 |
| Other payroll levies | 23,310 | 20,509 |
| Leave pay provision charge | 1,364,166 | 720,669 |
| Pension costs | 9,791,877 | 8,775,008 |
| Leave pay | 942,384 | 725,586 |
| Travel, motor car, accommodation, subsistence and other allowances | 1,445,441 | 1,867,729 |
| Overtime payments | 3,553,739 | 2,523,100 |
| Acting allowances | 1,482,636 | 1,244,327 |
| Transport allowance (bus coupons) | 1,086 | 210 |
| Housing benefits and allowances | 365,446 | 416,089 |
| Cell phone allowance | 71,448 | 77,672 |
| Group insurance | 703,997 | 623,141 |
| Leave bonus | 4,158,109 | 3,528,662 |
| **Excluding section 57 managers detailed below** | **78,712,420** | **69,851,860** |

**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | 723,843 | 570,068 |
| Car Allowance | 128,688 | 112,573 |
| Performance Bonuses | 94,962 | - |
| Contributions to UIF, Medical and Pension Funds | 61,026 | 171,219 |
| | **1,008,519** | **853,860** |

**Remuneration of Chief Finance Officer**

| | | |
|---|---|---|
| Annual Remuneration | 236,389 | - |
| Car Allowance | 24,150 | - |
| Contributions to UIF, Medical and Pension Funds | 499 | - |
| | **261,038** | **-** |

**Remuneration of Executive Managers**

**Management Support Services**

| | | |
|---|---|---|
| Annual Remuneration | 304,737 | 548,674 |
| Car Allowance | 98,504 | 181,709 |
| Contributions to UIF, Medical and Pension Funds | 873 | 1,497 |
| | **404,114** | **731,880** |

**Community Services**

| | | |
|---|---|---|
| Annual Remuneration | 466,847 | 484,696 |
| Car Allowance | 133,796 | 128,977 |
| Performance Bonuses | 67,032 | - |
| Contributions to UIF, Medical and Pension Funds | 182,468 | 118,207 |
| | **850,143** | **731,880** |

**Service Delivery**

| Figures in Rand | 2011 | 2010 |
|---|---|---|
| **26. Employee related costs (continued)** | | |
| Annual Remuneration | 432,326 | 459,957 |
| Car Allowance | 153,718 | 139,745 |
| Performance Bonuses | 81,122 | - |
| Contributions to UIF, Medical and Pension Funds | 197,086 | 132,178 |
| | **864,252** | **731,880** |
| **Development Planning and Housing** | | |
| Annual Remuneration | 495,556 | 503,044 |
| Car Allowance | 107,150 | 99,718 |
| Performance Bonuses | 58,625 | - |
| Contributions to UIF, Medical and Pension Funds | 180,406 | 129,118 |
| | **841,737** | **731,880** |
| **27. Remuneration of councillors** | | |
| Executive Major | 540,778 | 625,643 |
| Speaker | 445,427 | 476,069 |
| Councillors | 4,803,116 | 4,389,185 |
| | **5,789,321** | **5,490,897** |

**In-kind benefits**

The Executive Mayor, Speaker and Mayoral Committee Members are full-time employees. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of a Council owned vehicle with two driver bodyguards for official duties.

| | | |
|---|---|---|
| **28. Administrative expenditure** | | |
| Administration and management fees - third party | - | 5,500 |
| **29. Debt impairment** | | |
| Debt impairment | 8,292,037 | (1,727,604) |
| Contributions to debt impairment provision | 18,404,684 | 31,104,146 |
| Debts impaired | - | 5,355,190 |
| | **26,696,721** | **34,731,732** |
| **30. Investment revenue** | | |
| **Interest revenue** | | |
| Interest charged on trade and other receivables | 655,710 | 365,353 |
| Interest earned - external investments | 1,371,391 | 2,056,973 |
| | **2,027,101** | **2,422,326** |

The amount included in Investment revenue arising from non-exchange transactions amounted to R 1,711,863.

| | | |
|---|---|---|
| **31. Depreciation and amortisation** | | |
| Property, plant and equipment | 31,131,642 | 30,465,079 |
| Investment property | 13,951,157 | 7,929,436 |
| | **45,082,799** | **38,394,515** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 32. Finance costs

| | | |
|---|---|---|
| Interest on convertible instruments | 5,375,962 | 4,639,961 |

Capitalisation rates used during the period were -% on specific borrowings for capital projects and 9% being the weighted average cost of funds borrowed generally by the municipality.

### 33. Taxation

The Municipality is exempt from income tax in terms of the Income Tax Act.

### 34. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 2,612,508 | 1,417,847 |

### 35. Contracted services

| | | |
|---|---|---|
| Specialist Services | 960,944 | 988,485 |
| Other Contractors | 1,484,371 | 1,142,840 |
| | **2,445,315** | **2,131,325** |

### 36. Bulk purchases

| | | |
|---|---|---|
| Electricity | 117,854,005 | 81,502,100 |
| Water | 27,369,673 | 17,898,475 |
| Sewer purification | 5,734,963 | 4,511,698 |
| | **150,958,641** | **103,912,273** |

### 37. Cash generated from operations

| | | |
|---|---|---|
| Deficit | (19,334,797) | (25,287,713) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 45,082,799 | 38,394,515 |
| (Loss) gain on sale of assets and liabilities | (628,374) | 14,379 |
| Debt impairment | 26,696,721 | 34,731,732 |
| Movements in provisions | 583,188 | 1,179,892 |
| Revaluation of unsold properties held for sale | 191,259 | 14,086,000 |
| **Changes in working capital:** | | |
| Inventories | 1,698,773 | (13,266,792) |
| Other receivables from exchange transactions | (6,385,234) | 1,708,302 |
| Consumer debtors | (42,571,478) | (31,201,569) |
| Trade and other payables from exchange transactions | 37,557,790 | 7,530,307 |
| VAT | 11,962,841 | (7,005,779) |
| Unspent conditional grants and receipts | (17,135,961) | 2,714,247 |
| Consumer deposits | 527,269 | 383,508 |
| | **38,244,796** | **23,981,029** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 38. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Financed infrastructure | 6,776,936 | 4,093,707 |

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

**Operating leases - as lessee (expense)**

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 290,215 | 451,373 |
| - in second to fifth year inclusive | 209,575 | 456,565 |
| | **499,790** | **907,938** |

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for an average term of five years and rentals are fixed for an average of three years. No contingent rent is payable.

### 39. Contingencies

An arbitration award is in dispute regarding a claim from an employee against the municipality relating to a dispute with that employee who is claiming compensation from the municipality and is seeking damages of R 151,065. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the dispute should be resolved within the next year.

Litigation is in the process against the municipality relating to legal fees arising from a dispute re limited use of trucks the damages cannot be determined yet. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Litigation is in the process against the municipality and its security services and the Minister of Safety and Security, by eight Samwu strikers claiming damages in the amount of R4 687 725. The case relates to incidents during May 2008 but notice was received after the financial year end. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Litigation is in the process against the municipality and Gauteng Provincial Housing, Re: a mixed housing project called Obed Nkosi. The land was expropriated, the owner of the land disputes the land value determined by the province valuators. Litigation is against Lesedi as it falls within Lesedi Municipal boundaries. Amount claimed is R51million. Council offered R 11 million of which R9 million has already been paid. If applicant is successful province will cover all costs and settlement amount. Hearing scheduled for January 2012 and should be finalised by March 2012.

Lesedi requested ABSA Bank to issue a guarantee deposit for an Eskom account in the some of R135 000.

### 40. Related parties

| | |
|---|---|
| Relationships | |
| Close family member of key management | None |
| Joint venture of key management | None |
| Associate of close family member of key management | None |
| Members of key management | Directors remuneration - Refer to Employee Related Costs and Remuneration of Councillors notes |

### 41. Restatement of comparative figures

Certain comparative figures have been restated.

| Figures in Rand | 2011 | 2010 |
|---|---|---|

**41. Restatement of comparative figures (continued)**

The receivable portion of grants was restated as grants which requires reconciliation between revenue unspent grants and grant revenue recognised were both restated to clearly show both operational and capital grants seperately and allow DORA grants to be fully separated and the reconciliation of Revenue, cash flow and yearend balances.

The effects of the restatements are as follows:

| | | |
|---|---|---|
| **Statement of financial position** | | |
| Note 10 Other receivables from exchange transactions | - | - |
| Sundry debtors - now | 4,304,845 | 827,846 |
| Sundry debtors - previously | - | 2,032,966 |
| Note 15 Unspent conditional grants and receipts | - | - |
| District health - now | (420,731) | (246,035) |
| District health - previously | - | - |
| Provincial clinics - now | (1,346,673) | (959,085) |
| Provincial clinics - previously | - | - |
| Total - now | (1,767,404) | (1,205,120) |
| Total - previously | - | - |
| | | |
| **Statement of Financial Performance** | | |
| Depreciation and ammortisation - now | - | (27,435,567) |
| Depreciation and ammortisation - previously | - | (38,394,515) |
| Net surplus for the year - now | - | (14,328,759) |
| Net surplus for the year - previously | - | (20,508,265) |

**42. Risk management**

**Liquidity risk**

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

**Interest rate risk**

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

**Credit risk**

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one institution.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the council. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument | 2011 | 2010 |
|---|---|---|
| ABSA - call account | - | 9,000,000 |
| INVESTEC Bank | - | 6,000,000 |
| ABSA - current account | 3,888,449 | 5,322,282 |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 43. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 44. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- nature of the event. - the Municipal Manager's contract was not renewed at 1 September 2011.
- No estimation can be made of the financial effect other than to note the municipality is working with a very small working capital balance.

### 45. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 16,108 | - |
| Add: Irregular Expenditure - current year | 390,433 | 16,108 |
| Less: Amounts recoverable (not condoned) | (16,108) | - |
| | **390,433** | **16,108** |

**Details of irregular expenditure – current year**

| Incident | Response by Management | |
|---|---|---|
| Salary officials processed salary adjustments irregularly | Disciplinary steps are complete and funds recovered. | 16,108 |
| Store stock losses | Certain inventory items were found missing during the annual inventory verification. Disciplinary steps/ criminal proceedings are at the investigation stage. | 390,433 |
| | | **406,541** |

### 46. In-kind donations and assistance

The Municipality received the following in-kind donations and assistance:

DBSA Development Fund's Siyenza Manje project deployed a suitably qualified accountant to enhance municipal financial controls, from 01 July 2010 to 31 March 2011.

### 47. Additional disclosure in terms of Municipal Finance Management Act

**Audit fees**

| | | |
|---|---|---|
| Amount paid - current year | 2,447,653 | 1,417,846 |

**PAYE and UIF**

| | | |
|---|---|---|
| Amount paid - current year | 9,069,491 | 7,257,910 |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Amount paid - current year | 22,116,193 | 12,484,180 |

**VAT**

| | | |
|---|---|---|
| VAT receivable | 603,862 | 12,566,703 |

VAT output payables and VAT input receivables are shown in note 11 and 12.

All VAT returns have been submitted by the due date throughout the year.

| Figures in Rand | 2011 | 2010 |
|---|---|---|

**47. Additional disclosure in terms of Municipal Finance Management Act (continued)**

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

| 30 June 2011 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Lekala JM | 771 | 156 | 927 |
| Masina DG | 808 | 33,443 | 34,251 |
| Nkosi MNR | 3,712 | 5,361 | 9,073 |
| | **5,291** | **38,960** | **44,251** |

| 30 June 2010 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| All Councillors only had Current Balances | - | - | - |

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

| 30 June 2011 | Highest outstanding amount | Aging (in days) |
|---|---|---|
| All Councillors only had current balances | - | - |

| 30 June 2010 | Highest outstanding amount | Aging (in days) |
|---|---|---|
| All councilors only had current balances | - | - |

**48. Utilisation of Long-term liabilities reconciliation**

| | | |
|---|---|---|
| Long-term liabilities raised - Note 15 | 56,406,710 | 54,159,306 |

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the adjudication committee and council, and additionally, includes a note to the annual financial statements.

Six procurements, listed below, were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the adjudication committee and council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The procurements noted above are: ITA (Hymax) upgrading of Lesedi's telephone systems (R 123,837); V3 Civil Contractors and Iso Lesizwe repairing of low bridge in Kismet Street, Shalima Ridge (R 167,366); Izigi Ze-Africa repairing of low bridge in Mare Street, Heidelberg (R 86,070); Sedgars supply and delivery of promotional material to the community service department (R 132,240); Frad (Pty) Ltd upgrading of Retief substation; Combined Systems upgrade of the Baud asset management system (R 1,594,407).

### 50. Unaccounted water and electricity

| | | |
|---|---|---|
| **Distribution loss amounts** | | |
| Electricity | 16,716,215 | 9,918,218 |
| Water | 5,163,698 | 1,480,054 |
| | **21,879,913** | **11,398,272** |

ELECTRICITY

| Year | Units Purchased | Units Sold | Loss in Distribution |
|---|---|---|---|
| 2006/2007 | 212,301,802 | 189,828,817 | 10.59% |
| 2007/ 2008 | 223,817,061 | 192,100,223 | 14.17% |
| 2008/ 2009 | 229,180,514 | 201,180,324 | 12.22% |
| 2009/ 2010 | 235,566,237 | 206,899,525 | 12.17% |
| 2010/ 2011 | 238,306,342 | 204,505,368 | 14.18% |

WATER

| Year | Units Purchased | Units Sold | Loss in Distribution |
|---|---|---|---|
| 2006/2007 | 5,290,503 | 4,603,050 | 12.99% |
| 2007/ 2008 | 5,139,501 | 4,180,040 | 18.67% |
| 2008/ 2009 | 5,829,350 | 5,200,000 | 10.80% |
| 2009/ 2010 | 5,494,897 | 5,040,515 | 8.27% |
| 2010/ 2011 | 6,151905 | 5,016,855 | 18.45% |

## Notes to the Annual Financial Statements

Figures in Rand

### 51. Statement of comparative and actual information

**2011**

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final budget | Actual outcome | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|
| **Financial Performance** | | | | | | | |
| Property rates | 46,143,319 | 63,155,373 | 63,155,373 | 49,916,025 | 13,239,348 | 79 % | 108 % |
| Service charges | 227,029,905 | 214,738,489 | 214,738,489 | 213,337,850 | 1,400,639 | 99 % | 94 % |
| Investment revenue | 8,027,571 | 8,227,571 | 8,227,571 | 2,027,101 | 6,200,470 | 25 % | 25 % |
| Transfers recognised - operational | 64,482,933 | 65,931,992 | 65,931,992 | 62,095,586 | 3,836,406 | 94 % | 96 % |
| Other own revenue | 5,913,541 | 5,073,995 | 5,073,995 | 6,749,505 | (1,675,510) | 133 % | 114 % |
| **Total revenue (excluding capital transfers and contributions)** | **351,597,269** | **357,127,420** | **357,127,420** | **334,126,067** | **23,001,353** | **94 %** | **95 %** |
| Employee costs | (90,161,155) | (86,867,758) | (86,867,758) | (82,942,223) | (3,925,535) | 95 % | 92 % |
| Remuneration of councillors | (6,032,285) | (6,245,834) | (6,245,834) | (5,789,321) | (456,513) | 93 % | 96 % |
| Debt impairment | (4,730,881) | (4,984,772) | (4,984,772) | (26,696,721) | 21,711,949 | 536 % | 564 % |
| Depreciation and asset impairment | (26,498,570) | (30,075,001) | (30,075,001) | (45,082,799) | 15,007,798 | 150 % | 170 % |
| Finance charges | (4,458,341) | (5,444,173) | (5,444,173) | (5,375,962) | (68,211) | 99 % | 121 % |
| Materials and bulk purchases | (134,475,097) | (134,575,097) | (134,575,097) | (150,958,641) | 16,383,544 | 112 % | 112 % |
| Other expenditure | (83,383,529) | (82,429,810) | (82,429,810) | (69,635,289) | (12,794,521) | 84 % | 84 % |
| **Total expenditure** | **(349,739,858)** | **(350,622,445)** | **(350,622,445)** | **(386,480,956)** | **35,858,511** | **110 %** | **111 %** |
| **Surplus/(Deficit)** | **1,857,411** | **6,504,975** | **6,504,975** | **(52,354,889)** | **58,859,864** | **(805)%** | **(2,819)%** |

## Notes to the Annual Financial Statements

Figures in Rand

**51. Statement of comparative and actual information (continued)**

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final budget | Actual outcome | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|
| Transfers recognised - capital | 2,898,670 | 31,369,088 | 31,369,088 | 33,020,092 | (1,651,004) | 105 % | 1,139 % |
| **Surplus (Deficit) after capital transfers and contributions** | **4,756,081** | **37,874,063** | **37,874,063** | **(19,334,797)** | **57,208,860** | **(51)%** | **(407)%** |
| **Surplus/(Deficit) for the year** | **4,756,081** | **37,874,063** | **37,874,063** | **(19,334,797)** | **57,208,860** | **(51)%** | **(407)%** |

## Notes to the Annual Financial Statements

Figures in Rand

### 51. Statement of comparative and actual information (continued)

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final budget | Actual outcome | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|
| **Capital expenditure and funds sources** | | | | | | | |
| Total capital expenditure | 61,264,200 | 73,715,522 | 73,715,522 | 64,285,573 | 9,429,949 | 87 % | 105 % |
| **Sources of capital funds** | | | | | | | |
| Transfers recognised - capital | 24,732,000 | 31,369,087 | 31,369,087 | 33,020,092 | (1,651,005) | 105 % | 134 % |
| Borrowing | 26,200,000 | 27,252,630 | 27,252,630 | 7,191,863 | 20,060,767 | 26 % | 27 % |
| Internally generated funds | 10,332,200 | 15,093,805 | 15,093,805 | 24,073,618 | (8,979,813) | 159 % | 233 % |
| **Total sources of capital funds** | **61,264,200** | **73,715,522** | **73,715,522** | **64,285,573** | **9,429,949** | **87 %** | **105 %** |
| **Cash flows** | | | | | | | |
| Net cash from (used) operating | 35,415,000 | 27,312,213 | 27,312,213 | 38,244,796 | (10,932,583) | 140 % | 108 % |
| Net cash from (used) investing | (52,300,000) | (64,751,322) | (64,751,322) | (63,559,504) | (1,191,818) | 98 % | 122 % |
| Net cash from (used) financing | 21,886,000 | 22,938,630 | 22,938,630 | 2,247,404 | 20,691,226 | 10 % | 10 % |
| **Net increase/(decrease) in cash and cash equivalents** | **5,001,000** | **(14,500,479)** | **(14,500,479)** | **(23,067,304)** | **8,566,825** | **159 %** | **(461)%** |
| Cash and cash equivalents at the beginning of the year | 39,182,000 | 26,958,088 | 26,958,088 | 26,958,088 | - | 100 % | 69 % |
| **Cash and cash equivalents at year end** | **44,183,000** | **12,457,609** | **12,457,609** | **3,890,784** | **8,566,825** | **31 %** | **9 %** |

**Lesedi Local Municipality**
**Appendix A**
June 2011

## Schedule of external loans as at 30 June 2011

| | Loan Number | Redeemable | Balance at 30 June 2010 | Received during the period | Redeemed written off during the period | Balance at 30 June 2011 | Carrying Value of Property, Plant & Equip | Other Costs in accordance with the MFMA |
|---|---|---|---|---|---|---|---|---|
| | | | Rand | Rand | Rand | Rand | Rand | Rand |
| **Development Bank of South Africa** | | | | | | | | |
| R11 JP Jameson Park - 13.56% Fixed | 12599/ 15400 | 20 Years | 61,597 | - | 12,522 | 49,075 | - | - |
| R12 Mun Off - 13.85% fixed | 100023 | 10 Years | 11,232,850 | - | 3,257,298 | 7,975,552 | - | - |
| R13 Rat Elec - 9.45% fixed | 102187 | 15 Years | 4,247,985 | - | 233,600 | 4,014,385 | - | - |
| R14 Electrical Upgrade - 9.59% fixed | 102986_1 | 20 Years | 19,391,812 | 655,025 | 465,232 | 19,581,605 | - | - |
| R15 Electrical Upgrade - 5.00% fixed | 102986_2 | 20 Years | 13,136,824 | - | 464,631 | 12,672,193 | - | - |
| R16 Vehicles - 11.87% fixed | 103593/3 | 12 Years | 2,888,000 | 1,112,000 | 203,481 | 3,796,519 | - | - |
| R17 Infrastructure - 6.75% fixed | 103593/2 | 20 Years | 3,352,106 | 47,894 | 85,336 | 3,314,664 | - | - |
| R18 Other - 14.24% fixed | 103593/1 | 20 Years | 223,057 | 5,376,944 | 331,079 | 5,268,922 | - | - |
| Total external loans | | | **54,534,231** | **7,191,863** | **5,053,179** | **56,672,915** | **-** | **-** |

# Lesedi Local Municipality
Lesedi Local Municipality
# Appendix B
June 2011

## Analysis of property, plant and equipment as at 30 June 2011

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
| **Land and buildings** | | | | | | | | | | | | | | |
| Land (Separate for AFS purposes) | 57,034,399 | - | - | - | - | - | **57,034,399** | - | - | - | - | - | - | 57,034,399 |
| | **57,034,399** | **-** | **-** | **-** | **-** | **-** | **57,034,399** | **-** | **-** | **-** | **-** | **-** | **-** | **57,034,399** |
| **Infrastructure** | | | | | | | | | | | | | | |
| Roads, Pavements & Bridges | 142,164,963 | 24,154,892 | - | - | - | - | **166,319,855** | (78,793,836) | - | - | (7,618,549) | - | **(86,412,385)** | 79,907,470 |
| Security measures | 4,134,091 | 196,783 | - | - | - | - | **4,330,874** | (1,192,373) | - | - | (411,971) | - | **(1,604,344)** | 2,726,530 |
| Water mains | 53,866,557 | 308,892 | - | - | - | - | **54,175,449** | (26,902,058) | - | - | (2,556,377) | - | **(29,458,435)** | 24,717,014 |
| Transmission & Reticulation - Electricity | 135,827,268 | 8,696,740 | - | - | - | - | **144,524,008** | (59,622,641) | - | - | (6,676,947) | - | **(66,299,588)** | 78,224,420 |
| Sewerage purification & reticulation | 58,689,007 | - | - | - | - | - | **58,689,007** | (36,623,468) | - | - | (1,677,345) | - | **(38,300,813)** | 20,388,194 |
| Landfill Site | 1,261,982 | - | - | - | - | - | **1,261,982** | (200,690) | - | - | (315,142) | - | **(515,832)** | 746,150 |
| Infrastructure on Agri Land | 363,162 | - | - | - | - | - | **363,162** | (156,481) | - | - | (14,514) | - | **(170,995)** | 192,167 |
| Work in Progress | - | 24,641,141 | - | - | - | - | **24,641,141** | - | - | - | - | - | **-** | 24,641,141 |
| | **396,307,030** | **57,998,448** | **-** | **-** | **-** | **-** | **454,305,478** | **(203,491,547)** | **-** | **-** | **(19,270,845)** | **-** | **(222,762,392)** | **231,543,086** |
| **Community Assets** | | | | | | | | | | | | | | |
| Sports and recreational facilities | 5,227,115 | 171,791 | - | - | - | - | **5,398,906** | (1,620,498) | - | - | (212,342) | - | **(1,832,840)** | 3,566,066 |
| Civic Buildings | 43,060,778 | 35,164 | - | - | - | - | **43,095,942** | (8,153,118) | - | - | (1,453,199) | - | **(9,606,317)** | 33,489,625 |
| | **48,287,893** | **206,955** | **-** | **-** | **-** | **-** | **48,494,848** | **(9,773,616)** | **-** | **-** | **(1,665,541)** | **-** | **(11,439,157)** | **37,055,691** |

# Lesedi Local Municipality
Lesedi Local Municipality
## Appendix B
June 2011

## Analysis of property, plant and equipment as at 30 June 2011

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
| **Heritage assets** | | | | | | | | | | | | | | |
| Heritage assets | 33,389,594 | 1,301,512 | - | - | - | - | **34,691,106** | - | - | - | - | - | - | 34,691,106 |
| | **33,389,594** | **1,301,512** | **-** | **-** | **-** | **-** | **34,691,106** | **-** | **-** | **-** | **-** | **-** | **-** | **34,691,106** |
| **Other assets** | | | | | | | | | | | | | | |
| Motor vehicles | 15,189,883 | 599,386 | (1,301,632) | - | - | - | **14,487,637** | (6,953,556) | 1,301,632 | - | (2,338,620) | - | **(7,990,544)** | 6,497,093 |
| Buildings | 38,883,709 | 260,332 | - | - | - | - | **39,144,041** | (20,655,229) | - | - | (1,298,081) | - | **(21,953,310)** | 17,190,731 |
| Furniture & Fittings | 4,000,022 | 127,550 | (118,042) | - | - | - | **4,009,530** | (2,584,943) | 71,442 | - | (421,242) | - | **(2,934,743)** | 1,074,787 |
| Office Equipment | 7,593,135 | 161,007 | (614,001) | - | - | - | **7,140,141** | (3,950,413) | 510,083 | - | (1,113,498) | - | **(4,553,828)** | 2,586,313 |
| Emergency Equipment | 924,391 | 29,745 | - | - | - | - | **954,136** | (289,288) | - | - | (154,703) | - | **(443,991)** | 510,145 |
| Specialized Vehicles | 6,319,788 | 2,490,942 | - | - | - | - | **8,810,730** | (1,621,910) | - | - | (368,204) | - | **(1,990,114)** | 6,820,616 |
| Plant & equipment | 25,096,874 | 981,695 | (512,554) | - | - | - | **25,566,015** | (12,794,764) | 496,655 | - | (3,537,271) | - | **(15,835,380)** | 9,730,635 |
| Bins and Containers | 458,419 | - | (31,700) | - | - | - | **426,719** | (126,998) | 15,335 | - | (42,129) | - | **(153,792)** | 272,927 |
| Work in progress | - | 128,000 | - | - | - | - | **128,000** | - | - | - | - | - | - | 128,000 |
| | **98,466,221** | **4,778,657** | **(2,577,929)** | **-** | **-** | **-** | **100,666,949** | **(48,977,101)** | **2,395,147** | **-** | **(9,273,748)** | **-** | **(55,855,702)** | **44,811,247** |
| **Total property plant and equipment** | | | | | | | | | | | | | | |
| Land and buildings | 57,034,399 | - | - | - | - | - | **57,034,399** | - | - | - | - | - | - | 57,034,399 |
| Infrastructure | 396,307,030 | 57,998,448 | - | - | - | - | **454,305,478** | (203,491,547) | - | - | (19,270,845) | - | **(222,762,392)** | 231,543,086 |
| Community Assets | 48,287,893 | 206,955 | - | - | - | - | **48,494,848** | (9,773,616) | - | - | (1,665,541) | - | **(11,439,157)** | 37,055,691 |
| Heritage assets | 33,389,594 | 1,301,512 | - | - | - | - | **34,691,106** | - | - | - | - | - | - | 34,691,106 |
| Other assets | 98,466,221 | 4,778,657 | (2,577,929) | - | - | - | **100,666,949** | (48,977,101) | 2,395,147 | - | (9,273,748) | - | **(55,855,702)** | 44,811,247 |
| | **633,485,137** | **64,285,572** | **(2,577,929)** | **-** | **-** | **-** | **695,192,780** | **(262,242,264)** | **2,395,147** | **-** | **(30,210,134)** | **-** | **(290,057,251)** | **405,135,529** |
| **Agricultural/Biological assets** | | | | | | | | | | | | | | |
| **Intangible assets** | | | | | | | | | | | | | | |
| Computers - software & programming | 4,240,737 | 85,088 | - | - | - | - | **4,325,825** | (1,776,289) | - | - | (921,507) | - | **(2,697,796)** | 1,628,029 |
| | **4,240,737** | **85,088** | **-** | **-** | **-** | **-** | **4,325,825** | **(1,776,289)** | **-** | **-** | **(921,507)** | **-** | **(2,697,796)** | **1,628,029** |
| **Investment properties** | | | | | | | | | | | | | | |
| Investment property | 292,654,068 | - | - | 117,225 | - | - | **292,771,293** | (21,880,593) | - | - | (13,951,157) | - | **(35,831,750)** | 256,939,543 |
| | **292,654,068** | **-** | **-** | **117,225** | **-** | **-** | **292,771,293** | **(21,880,593)** | **-** | **-** | **(13,951,157)** | **-** | **(35,831,750)** | **256,939,543** |
| **Total** | | | | | | | | | | | | | | |
| Land and buildings | 57,034,399 | - | - | - | - | - | **57,034,399** | - | - | - | - | - | - | 57,034,399 |
| Infrastructure | 396,307,030 | 57,998,448 | - | - | - | - | **454,305,478** | (203,491,547) | - | - | (19,270,845) | - | **(222,762,392)** | 231,543,086 |
| Community Assets | 48,287,893 | 206,955 | - | - | - | - | **48,494,848** | (9,773,616) | - | - | (1,665,541) | - | **(11,439,157)** | 37,055,691 |
| Heritage assets | 33,389,594 | 1,301,512 | - | - | - | - | **34,691,106** | - | - | - | - | - | - | 34,691,106 |
| Other assets | 98,466,221 | 4,778,657 | (2,577,929) | - | - | - | **100,666,949** | (48,977,101) | 2,395,147 | - | (9,273,748) | - | **(55,855,702)** | 44,811,247 |
| Intangible assets | 4,240,737 | 85,088 | - | - | - | - | **4,325,825** | (1,776,289) | - | - | (921,507) | - | **(2,697,796)** | 1,628,029 |
| Investment properties | 292,654,068 | - | - | 117,225 | - | - | **292,771,293** | (21,880,593) | - | - | (13,951,157) | - | **(35,831,750)** | 256,939,543 |

# Lesedi Local Municipality
Lesedi Local Municipality
## Appendix B
June 2011

## Analysis of property, plant and equipment as at 30 June 2011

| Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
| 930,379,942 | 64,370,660 | (2,577,929) | 117,225 | - | - | 992,289,898 | (285,899,146) | 2,395,147 | - | (45,082,798) | - | (328,586,797) | 663,703,101 |

## Segmental Statement of Financial Performance for the year ended

| Prior Year | | | | Current Year | | |
|---|---|---|---|---|---|---|
| **Actual Income Rand** | **Actual Expenditure Rand** | **Surplus /(Deficit) Rand** | | **Actual Income Rand** | **Actual Expenditure Rand** | **Surplus /(Deficit) Rand** |
| | | | **Municipality** | | | |
| 31,187,074 | 12,817,686 | 18,369,388 | Executive & Council/Mayor and Council | 51,711,285 | 16,845,466 | 34,865,819 |
| 44,656,921 | 41,321,403 | 3,335,518 | Finance & Admin/Finance | 59,834,101 | 62,937,920 | (3,103,819) |
| 2,782,920 | 5,656,773 | (2,873,853) | Planning and Development/Economic Development/Plan | 2,690,056 | 6,924,724 | (4,234,668) |
| 10,146,961 | 5,227,481 | 4,919,480 | Health/Clinics | 5,980,260 | 4,940,888 | 1,039,372 |
| 3,865,466 | 7,947,152 | (4,081,686) | Comm. & Social/Libraries and archives | 4,197,062 | 8,804,368 | (4,607,306) |
| 375,587 | 1,802,051 | (1,426,464) | Housing | 360,662 | 2,561,633 | (2,200,971) |
| 2,544,440 | 11,624,388 | (9,079,948) | Public Safety/Police | 2,431,593 | 12,217,875 | (9,786,282) |
| 1,827,751 | 2,771,317 | (943,566) | Sport and Recreation | 1,692,680 | 2,431,441 | (738,761) |
| - | 7,262,100 | (7,262,100) | Environmental Protection/Pollution Control | 188 | 8,259,540 | (8,259,352) |
| 29,646,392 | 30,821,011 | (1,174,619) | Waste Water Management/Sewerage | 32,483,579 | 30,994,645 | 1,488,934 |
| 4,887,836 | 14,243,719 | (9,355,883) | Road Transport/Roads | 27,829,046 | 16,374,607 | 11,454,439 |
| 41,642,371 | 43,704,324 | (2,061,953) | Water/Water Distribution | 48,198,395 | 39,422,084 | 8,776,311 |
| 124,803,950 | 130,526,535 | (5,722,585) | Electricity /Electricity Distribution | 129,610,807 | 159,688,147 | (30,077,340) |
| **298,367,669** | **315,725,940** | **(17,358,271)** | **Total** | **367,019,714** | **372,403,338** | **(5,383,624)** |

**Lesedi Local Municipality**
**Appendix E(1)**
June 2011

## Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2011

| | Current year 2010 Act. Bal. Rand | Current year 2010 Adjusted budget Rand | Variance Rand | Var | Explanation of Significant Variances greater than 10% versus Budget |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Property rates | 49,916,025 | 63,155,373 | (13,239,348) | (21.0) | Budget based on halving the general rate due to Valuation roll value doubling. Actual based on all rate differentials with the rebates etc. |
| Service charges | 213,337,850 | 214,738,489 | (1,400,639) | (0.7) | |
| Rental of facilities and equipment | 3,302,549 | 1,483,320 | 1,819,229 | 122.6 | Conservative minor budget set as recommended. See also farming income below. |
| Fines | 2,404,477 | 2,979,120 | (574,643) | (19.3) | Problems with payments from court resulted in the conservative minor budget not being met. |
| Government grants & subsidies | 95,115,678 | 97,301,080 | (2,185,402) | (2.2) | |
| Recoveries | 287,661 | 206,035 | 81,626 | 39.6 | Conservative minor budget exceeded. |
| Other farming income | - | 405,520 | (405,520) | (100.0) | Municipality does not do farming. Rental of land for grazing part of rental of facilities, error in budget. |
| Interest received - investment | 2,027,101 | 8,227,571 | (6,200,470) | (75.4) | Full extent of drawdown of investments due to grant funding being spent no accounted for in the budget. |
| | 366,391,341 | 388,496,508 | (22,105,167) | (5.7) | |
| Expenses | | | | | |
| Personnel | (82,942,222) | (86,867,758) | 3,925,536 | (4.5) | Vacancies especially in the HOD positions, CFO 8 months, Management Support Services 5 moths. |
| Remuneration of councillors | (5,789,322) | (6,245,834) | 456,512 | (7.3) | Budget based on a 10% increase before actuals announced as 5%. |
| Administration | - | - | - | - | |
| Depreciation | (45,082,797) | (30,075,001) | (15,007,796) | 49.9 | Additional assets due to run down of grant rollover funding |
| Finance costs | (5,375,962) | (5,444,173) | 68,211 | (1.3) | |
| Debt impairment | (26,696,721) | (4,984,772) | (21,711,949) | 435.6 | Optimism and difficulty with concept lead to total understatement. |
| Collection costs | (1,262,762) | (1,083,190) | (179,572) | 16.6 | additional work done to boost the recovery. |
| Repairs and maintenance - General | (18,295,494) | (19,117,329) | 821,835 | (4.3) | |
| Bulk purchases | (150,958,641) | (134,575,097) | (16,383,544) | 12.2 | Unexpected distribution losses |
| Contracted Services | (2,445,314) | (2,802,501) | 357,187 | (12.7) | Deliberate savings to conserve cash flow. |
| General Expenses | (47,505,271) | (59,426,790) | 11,921,519 | (20.1) | Deliberate savings to conserve cash flow. |
| | (386,354,506) | (350,622,445) | (35,732,061) | 10.2 | |
| Other revenue and costs | | | | | |
| Gain or loss on disposal of assets and liabilities | 628,374 | (2,217,547) | 2,845,921 | (128.3) | Not budgeted for due to conservative approach to budget. |
| | 628,374 | (2,217,547) | 2,845,921 | (128.3) | |
| Net surplus/ (deficit) for the year | (19,334,791) | 35,656,516 | (54,991,307) | (154.2) | Net of above explanations. |

**Lesedi Local Municipality**
**Appendix E(2)**
June 2011

## Budget Analysis of Capital Expenditure as at 30 June 2011

| | Additions Rand | Revised Budget Rand | Variance Rand | Variance % | Explanation of significant variances from budget |
|---|---|---|---|---|---|
| **Municipality** | | | | | |
| Executive & Council/Mayor and Council | 621 | 719 | 98 | **14** | Mayors insurance replace met less than budget. |
| Finance & Admin/Finance | 30 | 30 | - | **-** | |
| Planning and Development/Economic Development/Plan | - | - | - | **-** | |
| Health/Clinics | 92 | 220 | 128 | **58** | Grant recovered by claims. Slow receipts resulted in underspend. |
| Public Safety/Police | 41 | (443) | (484) | **109** | Equipment required less than estimate. |
| Sport and Recreation | 2,021 | 1,879 | (142) | **(8)** | |
| Environmental Protection/Pollution Control | 586 | 64,995 | 64,409 | **99** | Equipment required less than estimate |
| Waste Water Management/Sewerage | 2,491 | 2,600 | 109 | **4** | |
| Road Transport/Roads | 31,366 | 36,170 | 4,804 | **13** | A portion of the Borrowing was rolled over due to fund constraints - Borrowing received in July 2011 |
| Water/Water Distribution | 4,230 | 4,275 | 45 | **1** | |
| Electricity /Electricity Distribution | 22,829 | 26,540 | 3,711 | **14** | A portion of the Borrowing was rolled over due to fund constraints - Borrowing received in July 2011 |
| | **64,307** | **136,985** | **72,678** | **53** | |

**Lesedi Local Municipality**
**Appendix F**
**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**
June 2011

| Name of Grants | Name of organ of state or municipal entity | Quarterly Receipts | | | | | Quarterly Expenditure | | | | | Grants and Subsidies delayed / withheld | | | | | Reason for delay/withholding of funds | Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act | Reason for noncompliance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Jun | Sep | Dec | Mar | Jun | Jun | Sep | Dec | Mar | Jun | Jun | Sep | Dec | Mar | Jun | | Yes/ No | |
| FMG | NT | 506 | - | - | - | 2,963 | - | - | - | - | (3,469) | - | - | - | - | - | | Yes | |
| NER/ DME | Prov | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | | |
| MSIG | NT | - | - | - | - | 750 | - | - | - | - | (750) | - | - | - | - | - | | Yes | |
| District health | Other | (246) | - | - | - | 2,094 | - | - | - | - | (2,269) | - | - | - | - | (421) | Grant claim submitted | Yes | |
| Vuna & others | Prov | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | | |
| Provincial clinics | Prov | (959) | - | - | - | 2,065 | - | - | - | - | (2,452) | - | - | - | - | (1,347) | Grant claim submitted | Yes | |
| Water grants | Sedebeng | 512 | - | - | - | 1,370 | - | - | - | - | (1,042) | - | - | - | - | 840 | Funds received early Prov year late Municipal year | Yes | |
| Provincial library & other | NT | 568 | - | - | - | 2,682 | - | - | - | - | (3,008) | - | - | - | - | 242 | operational savings | Yes | roll over requested |
| Agriculture grant | NT | 325 | - | - | - | - | - | - | - | - | (325) | - | - | - | - | - | | Yes | |
| District Other | Prov | - | - | - | - | 516 | - | - | - | - | (687) | - | - | - | - | (170) | | | |
| District Madiba road - capital | Prov | 29 | - | - | - | 1,800 | - | - | - | - | (1,796) | - | - | - | - | 33 | operational savings | Yes | roll over requested |
| MIG - capital | Other | 16,616 | - | - | - | 13,239 | - | - | - | - | 29,421) | - | - | - | - | 434 | operational savings | Yes | Roll over approved |
| Prov clinics - capital | Prov | 80 | - | - | - | - | - | - | - | - | (80) | - | - | - | - | - | | Yes | |
| Vuna & other - capital | Sedebeng | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | | |
| Prov other capital | | 85 | - | - | - | - | - | - | - | - | - | - | - | - | - | 85 | | No | operational savings not reallocated |
| FMG - Capital | | - | - | - | - | 37 | - | - | - | - | (37) | - | - | - | - | - | | Yes | |
| Prov Library capital | | 203 | - | - | - | 1,638 | - | - | - | - | (1,686) | - | - | - | - | 155 | operational savings | Yes | roll over requested |
| Equitable share | | - | - | - | - | 48,093 | - | - | - | - | 48,093) | - | - | - | - | - | | Yes | |
| | | 17,719 | - | - | - | 77,247 | - | - | - | - | 95,115) | - | - | - | - | (149) | | | |

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.

# Supplementary Information


The supplementary information presented does not form part of the annual financial statements and is unaudited